ABSTRACT

ACQUIRING A COMPANY: THE ROLE OF THE TARGET COMPANY'S INNOVATIONS IN THE PROCESS OF SHAPING TRANSACTION VALUE

Kirils Farbarzevics

In the last decades, innovations and acquisitions of innovative companies are more and more linked to IT technologies. At the same time, company valuation is dominated by DCF and multiples, both methods are increasingly used by the large consulting firms, which also dominate the information landscape on M&A. This implies that innovations should dominate the price negotiations on one hand, but on the other hand, innovations are not an explicit part of the popular valuation methods.

This dissertation's aim in terms of acquiring a company, is the impact of target innovation on transaction value. Due to the partial novelty of the topic, a mixed strategy of qualitative and quantitative methods has been used. Methodologically, the work relies on a content analysis and systematization according to Mayring in both literature study and empirical part. The empirical part consists of a case study of an asset deal and a survey that puts variables elaborated from the two studies and dependencies between them in one system. The survey was preceded by a pre-test and results in a second order SEM on the basis of partial least squares (PLS), which measures the influence of the variable target innovation. These impact variables are "initial purchase price expectation" and "changed purchase price expectation". The overall system includes other relevant endogenous and exogenous variables which build the SEM. A special feature is the use of the variable price expectation as a proxy for the variable price. A central result is the strong direct impact of the target innovation on the initial purchase price expectation and the indirect impact on the changed purchase price expectation. In addition, there are some subordinate results, one is the flexibility of the price expectation by a price range, in which most acquisition participants think. Despite a presumption of converting the expected price range into a concrete price, usually no conversion takes place. The other is the dynamics

of the purchase price expectations, where most likely the scenario concerning the increasing and then decreasing is found.